

ORIGINAL

# OPEN MEETING



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## MEMORANDUM

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Arizona Corporation Commission

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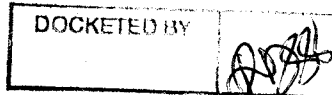
2011 AUG 23 P 4: 42

FROM: Utilities Division

AUG 23 2011

AZ CORP COMMISSION  
DOCKET CONTROL

DATE: August 23, 2011



RE: MOHAVE ELECTRIC COOPERATIVE, INC. - APPLICATION FOR APPROVAL  
OF NET METERING TARIFF REVISIONS (DOCKET NO. E-01750A-11-0261)

### Background

On June 30, 2011, Mohave Electric Cooperative, Inc. ("Mohave" or "Cooperative") filed an application for approval of revisions to its Net Metering Tariff ("Schedule NMS"). Mohave's Schedule NMS was previously revised by the Arizona Corporation Commission ("ACC" or "Commission") in Decision No. 72087, effective January 20, 2011.

Net Metering allows electric utility consumers to be compensated for generating their own energy from renewable resources, fuel cells, or Combined Heat and Power (i.e., co-generation).

### Proposed Tariff Revision

Mohave's Schedule NMS applies to customers with any type of on-site generation using resources allowed by the Net Metering Rules and works in conjunction with the rate schedule from which the customer currently takes service. The tariff follows the Net Metering Rules with respect to eligibility, metering, billing, and disposition of excess customer generation.

In this application, Mohave is requesting a modification of the definition of "Annual Average Avoided Cost" and an updated Annual Average Avoided Cost ("AAAC").

### Annual Average Avoided Cost Definition

As stated in Arizona Administrative Code ("A.A.C.") R14-2-2306(F), "The payment for any remaining credits shall be at the Electric Utility's Avoided Cost." R14-2-2302(1) defines "Avoided Costs" as "the incremental cost to an Electric Utility for electric energy or capacity or both which, but for the purchase from the Net Metering facility, such utility would generate itself or purchase from another source."

Mohave's current Schedule NMS defines "Annual Average Avoided Cost" as "the average annual wholesale fuel and energy costs per kWh charged by the Cooperative's wholesale power supplier(s) during the Calendar Year, determined based upon the Cooperative's audited financial statement for the applicable Calendar Year. The Cooperative will submit an updated

Net Metering Service Tariff to the ACC no later than July 15 each year for approval of the Annual Average Avoided Cost. The current avoided kWh cost, once approved by the ACC, will be available at every Cooperative office and will continue in effect until the next AAAC is approved by the ACC.”

Mohave is proposing a change to the definition of “Annual Average Avoided Cost.” As proposed, “Annual Average Avoided Cost” would mean “the average annual wholesale fuel and energy costs per kWh charged by the Cooperative’s wholesale power supplier(s) during the Calendar Year, determined based upon the Cooperative’s audited financial statement for the applicable Calendar Year. The Cooperative will submit an updated Net Metering Service Tariff to the ACC no later than July 15 each year for approval of the Annual Average Avoided Cost. The current avoided kWh cost, once approved by the ACC, will be available at every Cooperative office and will continue in effect until the next AAAC is *effective, which shall be December 1<sup>st</sup> following the annual filing of an updated Net Metering Service Tariff, unless suspended or otherwise ordered by the Commission, prior thereto.*” Staff has italicized the portion of the definition that contains Mohave’s proposed modification.

Staff is not opposed to a December 1, 2011 effective date for the proposed AAAC. Such an effective date would allow the Cooperative to utilize the updated AAAC for its annual true-up which occurs during the last billing period of the calendar year, which is January 1 through December 31.

Staff is also not opposed to Mohave’s proposed revision of the definition of “Annual Average Avoided Cost.”

#### ***Annual Average Avoided Cost Amount***

Under Mohave’s current approved Schedule NMS, the customer’s excess generation energy is credited at the rate of \$0.0425 per kWh. Mohave has filed a proposed revised credit rate of \$0.03912 per kWh based on the Cooperative’s cost of energy purchases for 2010.

Mohave does not own any generating assets and purchases all of its energy on a wholesale basis. In calculating its avoided cost, Mohave uses its cost of purchased power, minus costs associated with demand and service charges and transmission costs.

Staff’s review of Mohave’s actual costs of purchased power over the past 12 months results in an average cost of \$0.03912 per kWh, consistent with the AAAC proposed by Mohave. The new tariff rate equates to a \$0.00338 decrease in Mohave’s avoided cost rate.

#### **Fair Value Consideration**

Staff has considered the proposed change in Mohave’s AAAC in terms of fair value implications. In Decision No. 57172, issued on November 29, 1990, the Commission determined the fair value of Mohave’s property to be \$26,742,431. According to more recent information

provided by Mohave, as of December 2010, the estimated value of Mohave's plant is \$56,203,995. Although Staff considered this information, the proposed AAAC in Schedule NMS would have no significant impact on Mohave's revenue, fair value rate base, or rate of return, because this charge is cost-based and relatively limited in scope.

**Recommendations**

Staff recommends that the Commission approve Mohave's revised Annual Average Avoided Cost for its Net Metering Tariff of \$0.03912 per kWh.

Staff also recommends that the Commission approve the revised definition of Annual Average Avoided Cost, as proposed by Mohave.

Staff recommends that Mohave be ordered to file a revised Net Metering Service Tariff in compliance with the Decision in this case within 15 days of the effective date of the Decision, with the Annual Average Avoided Cost specified in the Tariff as required by A.A.C. R14-2-2306(F).

Staff recommends that the effective date of the revised Annual Average Avoided Cost be December 1, 2011.



Steven M. Olea  
Director  
Utilities Division

SMO:LAF:lhms/SH

ORIGINATOR: Laura A. Furrey

1                               **BEFORE THE ARIZONA CORPORATION COMMISSION**

2   GARY PIERCE  
      Chairman

3   BOB STUMP  
      Commissioner

4   SANDRA D. KENNEDY  
      Commissioner

5   PAUL NEWMAN  
      Commissioner

6   BRENDA BURNS  
      Commissioner

7  
8   IN THE MATTER OF THE APPLICATION }  
9   OF MOHAVE ELECTRIC COOPERATIVE, }  
10  INC. FOR APPROVAL OF NET METERING }  
11  TARIFF REVISIONS                    }

DOCKET NO. E-01750A-11-0261

DECISION NO. \_\_\_\_\_

ORDER

12   Open Meeting  
13   September 6 and 7, 2011  
      Phoenix, Arizona

14   BY THE COMMISSION:

15                               **FINDINGS OF FACT**

16           1.     Mohave Electric Cooperative, Inc. ("Mohave" or the "Cooperative") is certificated  
17   to provide electric service as a public service corporation in the State of Arizona.

18   **Background**

19           2.     On June 30, 2011, Mohave filed an application for approval of revisions to its Net  
20   Metering Tariff ("Schedule NMS"). Mohave's Schedule NMS was previously revised by the  
21   Arizona Corporation Commission ("ACC" or "Commission") in Decision No. 72087, effective  
22   January 20, 2011.

23           3.     Net Metering allows electric utility consumers to be compensated for generating  
24   their own energy from renewable resources, fuel cells, or Combined Heat and Power (i.e., co-  
25   generation).

26   **Proposed Tariff Revision**

27           4.     Mohave's Schedule NMS applies to customers with any type of on-site generation  
28   using resources allowed by the Net Metering Rules and works in conjunction with the rate

1 schedule from which the customer currently takes service. The tariff follows the Net Metering  
2 Rules with respect to eligibility, metering, billing, and disposition of excess customer generation.

3 5. In this application, Mohave is requesting a modification of the definition of  
4 "Annual Average Avoided Cost" and an updated Annual Average Avoided Cost ("AAAC").

5 ***Annual Average Avoided Cost Definition***

6 6. As stated in Arizona Administrative Code ("A.A.C.") R14-2-2306(F), "The  
7 payment for any remaining credits shall be at the Electric Utility's Avoided Cost." R14-2-2302(1)  
8 defines "Avoided Costs" as "the incremental cost to an Electric Utility for electric energy or  
9 capacity or both which, but for the purchase from the Net Metering facility, such utility would  
10 generate itself or purchase from another source."

11 7. Mohave's current Schedule NMS defines "Annual Average Avoided Cost" as "the  
12 average annual wholesale fuel and energy costs per kWh charged by the Cooperative's wholesale  
13 power supplier(s) during the Calendar Year, determined based upon the Cooperative's audited  
14 financial statement for the applicable Calendar Year. The Cooperative will submit an updated Net  
15 Metering Service Tariff to the ACC no later than July 15 each year for approval of the Annual  
16 Average Avoided Cost. The current avoided kWh cost, once approved by the ACC, will be  
17 available at every Cooperative office and will continue in effect until the next AAAC is approved  
18 by the ACC."

19 8. Mohave is proposing a change to the definition of "Annual Average Avoided Cost."  
20 As proposed, "Annual Average Avoided Cost" would mean "the average annual wholesale fuel  
21 and energy costs per kWh charged by the Cooperative's wholesale power supplier(s) during the  
22 Calendar Year, determined based upon the Cooperative's audited financial statement for the  
23 applicable Calendar Year. The Cooperative will submit an updated Net Metering Service Tariff to  
24 the ACC no later than July 15 each year for approval of the Annual Average Avoided Cost. The  
25 current avoided kWh cost, once approved by the ACC, will be available at every Cooperative  
26 office and will continue in effect until the next AAAC is *effective, which shall be December 1<sup>st</sup>*  
27 *following the annual filing of an updated Net Metering Service Tariff, unless suspended or*

28 ...

1 *otherwise ordered by the Commission, prior thereto.*” Staff has italicized the portion of the  
2 definition that contains Mohave’s proposed modification.

3 9. Staff is not opposed to a December 1, 2011 effective date for the proposed AAAC.  
4 Such an effective date would allow the Cooperative to utilize the updated AAAC for its annual  
5 true-up which occurs during the last billing period of the calendar year, which is January 1 through  
6 December 31.

7 10. Staff is also not opposed to Mohave’s proposed revision of the definition of  
8 “Annual Average Avoided Cost.”

9 ***Annual Average Avoided Cost Amount***

10 11. Under Mohave’s current approved Schedule NMS, the customer’s excess  
11 generation energy is credited at the rate of \$0.0425 per kWh. Mohave has filed a proposed revised  
12 credit rate of \$0.03912 per kWh based on the Cooperative’s cost of energy purchases for 2010.

13 12. Mohave does not own any generating assets and purchases all of its energy on a  
14 wholesale basis. In calculating its avoided cost, Mohave uses its cost of purchased power, minus  
15 costs associated with demand and service charges and transmission costs.

16 13. Staff’s review of Mohave’s actual costs of purchased power over the past 12  
17 months results in an average cost of \$0.03912 per kWh, consistent with the AAAC proposed by  
18 Mohave. The new tariff rate equates to a \$0.00338 decrease in Mohave’s avoided cost rate.

19 **Fair Value Consideration**

20 14. Staff has considered the proposed change in Mohave’s AAAC in terms of fair value  
21 implications. In Decision No. 57172, issued on November 29, 1990, the Commission determined  
22 the fair value of Mohave’s property to be \$26,742,431. According to more recent information  
23 provided by Mohave, as of December 2010, the estimated value of Mohave’s plant is \$56,203,995.  
24 Although Staff considered this information, the proposed AAAC in Schedule NMS would have no  
25 significant impact on Mohave’s revenue, fair value rate base, or rate of return, because this charge  
26 is cost-based and relatively limited in scope.

27 ...

28 ...

1 **Recommendations**

2 15. Staff has recommended that the Commission approve Mohave's revised Annual  
3 Average Avoided Cost for its Net Metering Tariff of \$0.03912 per kWh.

4 16. Staff has also recommended that the Commission approve the revised definition of  
5 Annual Average Avoided Cost, as proposed by Mohave.

6 17. Staff has recommended that Mohave be ordered to file a revised Net Metering  
7 Service Tariff in compliance with the Decision in this case within 15 days of the effective date of  
8 the Decision, with the Annual Average Avoided Cost specified in the Tariff as required by A.A.C.  
9 R14-2-2306(F).

10 18. Staff has recommended that the effective date of the revised Annual Average  
11 Avoided Cost be December 1, 2011.

12 **CONCLUSIONS OF LAW**

13 1. Mohave Electric Cooperative, Inc. is an Arizona public service corporation within  
14 the meaning of Article XV, Section 2, of the Arizona Constitution.

15 2. The Commission has jurisdiction over Mohave and over the subject matter of the  
16 application.

17 3. Approval of Mohave's Net Metering Tariff Revision does not constitute a rate  
18 increase as contemplated by A.R.S. Section 40-250.

19 4. The Commission, having reviewed the application and Staff's Memorandum dated  
20 August 23, 2011, concludes that Mohave's Net Metering Tariff Revision should be approved as  
21 discussed herein.

22 **ORDER**

23 IT IS THEREFORE ORDERED that Mohave Electric Cooperative, Inc.'s Net Metering  
24 Tariff be and hereby is approved as discussed herein.

25 IT IS FURTHER ORDERED that Mohave Electric Cooperative, Inc.'s Annual Average  
26 Avoided Cost is approved at \$0.03912 per kWh, effective December 1, 2011.

27 IT IS FURTHER ORDERED that the definition of Annual Average Avoided Cost be  
28 revised as discussed herein.

1 IT IS FURTHER ORDERED that Mohave Electric Cooperative, Inc. shall file a revised  
2 Net Metering Tariff in compliance with this Decision within 15 days of the effective date of the  
3 Decision.

4 IT IS FURTHER ORDERED that this Order shall become effective immediately.

5  
6 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

7  
8 \_\_\_\_\_  
9 CHAIRMAN

COMMISSIONER

10  
11 \_\_\_\_\_  
12 COMMISSIONER

COMMISSIONER

COMMISSIONER

13 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,  
14 Executive Director of the Arizona Corporation Commission,  
15 have hereunto, set my hand and caused the official seal of  
16 this Commission to be affixed at the Capitol, in the City of  
17 Phoenix, this \_\_\_\_\_ day of \_\_\_\_\_, 2011.

18 \_\_\_\_\_  
19 ERNEST G. JOHNSON  
20 EXECUTIVE DIRECTOR

21 DISSENT: \_\_\_\_\_

22 DISSENT: \_\_\_\_\_

23 SMO:LAF:lh\SH  
24  
25  
26  
27  
28



1 SERVICE LIST FOR: Mohave Electric Cooperative, Inc.  
2 DOCKET NO. E-01345A-11-0261

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4 Mr. William P. Sullivan  
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